EMPLOYEES' RETIREMENT SYSTEM OF THE COUNTY OF MILWAUKEE

MINUTES OF THE OCTOBER 19, 2011 PENSION BOARD MEETING

1. Call to Order

Chairman Mickey Maier called the meeting to order at 8:35 a.m. in the Green Room of the Marcus Center, 127 East State Street, Milwaukee, Wisconsin 53202.

2. Roll Call

Members Present	Member Excused
Linda Bedford (Vice Chair)	Dr. Sarah Peck
Keith Garland	
Mickey Maier (Chairman)	
Dean Muller	
Rex Queen	
David Sikorski	
Guy Stuller	

Others Present
Mark Grady, Deputy Corporation Counsel
Marian Ninneman, Interim ERS Manager
Dale Yerkes, ERS Fiscal Officer
Daniel Gopalan, Assistant Fiscal Officer
Brian Wrubel, Marquette Associates, Inc.
Kevin T. Callahan, Adams Street Partners
John W. Gray, Adams Street Partners
Steven Huff, Reinhart Boerner Van Deuren s.c.
Steve Schultze, *Milwaukee Journel Sentinel*

3. Chairman's Report

The Chairman discussed possible locations and dates of the upcoming annual meeting. The meeting has been held in February because year-end information is first available then. Locations have included the Zoofari Center and, last year, the Italian Community Center. Additionally, retiree feedback indicated that a meeting date later than February may be more appropriate because of temperature- and weather-related concerns.

The Chairman stated that although the annual meeting has been scheduled in February in order to facilitate the distribution of year-end information on a timely basis, if employees and retirees would like a later meeting date, the meeting could be scheduled later in the year.

After general discussion, the Board agreed that since the annual meeting is for the employees and retirees, it would be acceptable to schedule it after February if that is what the employees and retirees want.

The Chairman then noted that location and timing options for the annual meeting will be reviewed and then announced at a later date. Additionally, depending on the agenda for the annual meeting, a business meeting may be scheduled immediately after the annual meeting to handle any outstanding critical items, similar to the meeting held in 2011.

4. Minutes — September 21, 2011 Pension Board Meeting

The Pension Board reviewed the minutes of the September 21, 2011 Pension Board meeting.

The Pension Board unanimously approved the minutes of the September 21, 2011 Pension Board meeting. Motion by Mr. Garland, seconded by Mr. Queen.

5. Reports of ERS Manager and Fiscal Officer

(a) Retirements Granted, September 2011

Ms. Ninneman presented the Retirements Granted Report for September 2011. Twenty-six retirements were tentatively approved by the Retirement Office in July, with a total monthly payment amount of $37,010. Of those 26 retirements, 18 were normal retirements, 1 was an early retirement, 5 were deferred, and 2 were deferred early. Additionally, 11 retirees chose the maximum option, and 16 were District Council 48 members. Twelve retirees elected backDROPs in amounts totaling $986,158. Of these 12 backDROPs, 10 were under $100,000.

Ms. Ninneman then noted that the Retirements Granted report was modified to remove member date of birth and clock number information. Additionally, asterisks were added to denote any employee retiring under the Rule of 75 and any other special option selections.

The Chairman stated that ERS rules dictate that unless there are questions about retirement requests, ERS automatically approves them as they occur. Mr. Grady then stated a Board member could ask that a retirement request be treated separately. Mr. Garland then requested that Lesley Schwartz-Nason's retirement request be removed from automatic approval for separate discussion, to which the Board agreed.

(b) ERS Monthly Activities Report, September 2011

Ms. Ninneman presented the Monthly Activities Report for September 2011. ERS had 7,776 retirees at the end of September, with a monthly payout of $12,501,010.

Ms. Ninneman then stated that 17 retirement appointments are scheduled, which is less than ERS expected. However, ERS anticipates a higher volume of retirements after the first of the year. A third appointment was added every day of the week in November and December, and the appointments are filling up quickly.

Ms. Ninneman noted that ERS continues to work on the OBRA payout project, and there are 702 cash-outs and 6 new monthly OBRA pensions. Additionally, the number of legal issues and open records requests are in line with last year's numbers.

(c) Retirement Statistics Third Quarter Report

Ms. Ninneman discussed the Retirement Statistics Third Quarter report. The report is currently in development but should be available in December. Highlights include 102 retirements for the third quarter of 2011. BackDROPs were $4.6 million, with a monthly payout of $148,000. Of the 102 retirees, 65 were female with 19.4 average years of service, and 37 were male with 20.6 average years of service. Average retirement age for both females and males was 58 years. Without including deferred retirements, the average retirement age for females was 57, the average retirement age for males was 58, and the average years of service for both was 23 years.

In response to a question from the Chairman, Ms. Ninneman stated that the report did not contain anything exceptional.

(d) Co-Development Third Quarter Report

Ms. Ninneman discussed the progress of the co-development team. The team can now access the Vitech development space, or the platform that Vitech uses to make changes to the ERS Pension System. The team has been trained in all phase 1 activities, which include updating forms and letters directly in the system and then moving them into production. The team is currently in training for phase 2, which includes the creation, modification, and enhancement of workflows that automate the processes to be completed in the event of a retirement, death, or disability. Phase 2 activity allows the system to do more, which decreases manual intervention and improves processing efficiency. Twenty-six forms have been loaded into production this quarter. These are forms that previously would have taken weeks or months to get from the vendor, and by moving the responsibility in-house, there was also a substantial estimated cost savings of $361,000.

In response to questions from the Chairman, Ms. Ninneman stated that ERS plans to continue shifting the development, enhancement, and upgrade responsibility from Vitech to the co-development team through next year, at a lower cost to the Pension System and at an increased efficiency.

(e) Individual Retirement Meeting Survey Third Quarter Report

Ms. Ninneman discussed the retiree exit survey for the third quarter. There were 24 meetings in July, 18 in August, and 18 in September. Survey response was 100% for July and August, and 61% for September. Overall, categories received a rating of Excellent or Good, with the exception of one Average rating. Two negative comments were received, and both were addressed with ERS staff. Positive comments reinforced the idea that ERS staff must realize the major lifestyle change these employees are making by retiring. As specialists, the staff must continue be understanding, informative, and helpful.

(f) 2012 Proposed Meeting Schedule

Ms. Ninneman discussed the proposed meeting schedule for 2012. No significant changes were made and all monthly meetings will include the same format. Meetings that conflict with holidays will be moved.

The Chairman then recommended that the meetings be added to everyone's calendars, and then noted that the Audit Committee meeting time was changed to 1:30 p.m.

(g) Fiscal Officer/Cash Flow Report

Mr. Yerkes first discussed the ERS cash flow report, stating that it includes projections for 2012; a $4 million transfer from K2 in January and ABS in February, and a 2½% redemption from IFM in January. The cash flow report does not include any surge in retirements early next year due to changes in Medicare Part B reimbursement, which were already adopted. Ms. Ninneman then noted that ERS will have a better idea next week of any cash flow changes that need to be made in the fourth quarter.

In response to a question from the Chairman, Mr. Yerkes stated that ERS expects the Fund total to be about the same.

Mr. Yerkes next distributed the September 2011 Portfolio Activity reports, noting that the September cash flow of $15 million was drawn from the Mellon Capital Bond Fund.

Mr. Yerkes then noted the third quarter check register. In response to a question from the Chairman, Mr. Yerkes stated that the item from United Flooring was due to having carpeting replaced.

In response to a question from Ms. Bedford, Mr. Yerkes and Mr. Wrubel explained that the $96,000 paid out to Artisan in the third quarter is actually for what Artisan earned for ERS in the second quarter. Artisan's asset manager fee is 80 basis points per year, which roughly equates to $325,000 per year.

Ms. Ninneman and Mr. Yerkes then provided preliminary information on the 2012 pension budget. Ms. Ninneman stated that a larger change in the budget comes from the proposed County budget. ERS was pulled into a separate division four years ago but will be rolled back under Human Resources, rendering ERS a levy department. The levy will be phased in over the next four to five years. The budget proposes that ERS staff will be reduced by four people. ERS is working with the Department of Administrative Services to determine whether ERS can retain at least some of that head count while still making up the levy dollars budgeted by making other changes.

Ms. Ninneman then stated that other objectives for 2012 include fully implementing the co-development project team in order to decrease application costs and increase production, and to fund new V3 upgrades to keep the system state-of-the-art. Additionally, ERS will increase its commitment to training and communication with employees through high-tech video conferencing and training tool upgrades, potentially producing videos with union-specific retirement information.

Mr. Yerkes then discussed individual line items of the budget. Investment manager fees in 2012 are anticipated to be approximately $50,000 less than in 2011. This number is based on net assets staying the same, and benefits and expenses for 2012 equaling the County and employee contributions, plus an estimated 8% rate of return. Investment consulting fees are per the contract with Marquette. Legal fees are the biggest unknown in the budget. The proposed increase of $250,000 is due to projections concerning ERS's legal situation relating to changes in benefits and to the contracts that are being eliminated or changed. Other issues include the continuing OBRA and IRS compliance.

In response to a statement from the Chairman, Mr. Yerkes agreed that anticipated legal fees are only an estimate, and that ERS could experience a positive budget variance from this item.

Mr. Yerkes then stated that the projected corporation counsel allocation is decreased by $70,000. Additionally, salaries, wages, and benefits are projected to decrease $351,000, primarily because of the reduction in ERS staff, but also because the fees for the director and administrative assistant positions have been pulled out of the budget.

In response to a question from Mr. Grady, Ms. Ninneman clarified that the positions affected by the reduction in ERS staff are currently filled. Two are clerical and two are professional positions; specifically, a research analyst and a V3 systems analyst.

The Chairman then stated that the work previously performed by the eliminated positions still needs to get done in order to continue efficiently operating ERS. If the work cannot be accomplished with staff available, ERS will need to find a way to accomplish the business of ERS.

In response to questions from Mr. Garland, Mr. Grady stated that the County has always exercised supervisory and administrative control over the hiring and discipline of ERS's staff. The question of whether ERS will fund these positions is a much longer and more involved discussion. However, in the short term, ERS is funding them. In the long term, the County pays for everything.

Mr. Yerkes then stated that starting in 2013, ERS will begin a four-year process of reimbursing the County for cross-charges relating to items such as personnel and computer equipment. Actual charges will be repaid, less $250,000.

In response to a question from Mr. Stuller, Mr. Grady stated that when the reimbursement is complete, items remaining for requested contributions will be things like travel expenses, capital costs, and rent on a pay-as-you-go basis, without 8% interest on a 10-year amortization of most cross-charged costs.

Mr. Yerkes then continued that amortization depreciation expenses will increase approximately $64,000. These expenses represent the cost incurred from the Vitech software. Outside consultant fees are expected to increase $121,000, primarily because of the co-development project. However, that increase will be offset by $500,000 in savings in future Vitech costs. Temporary employee expense should decrease by $24,000. Actuarial fees are projected to increase $25,000 because of contract changes and potential legal issues. Outside services for things like process improvement and employee training is budgeted to increase $197,000, and election expenses should increase. One employee election is scheduled for 2012, and another may be held if a resignation occurs. Overall, on the expense side, the budget will increase by approximately $144,000, but that will be offset by a $565,000 reduction in capital purchases. On a cash flow basis, the reduction is $400,000.

The Chairman then confirmed with Mr. Yerkes that action needs to be taken on the 2012 budget in November, so the 2012 budget will be a business item at the next Board meeting.

6. <u>Investments</u>

(a) <u>Adams Street Partners</u>

John Gray introduced himself as a 20-year partner with Adams Street and then introduced Kevin Callahan, the Chief Operating Officer.

Mr. Gray first noted that Adams Street raises a fund every year. Although it has been a very difficult fundraising environment, Adams Street had a solid fundraising year. The organization is financially sound with no changes in ownership. The most recent investment is an additional office in Beijing, opened early this year.

Mr. Gray then discussed Adams Street performance compared to public market returns. Private equity has been performing very well. Adam Street has achieved a 21% rate of return over the last 12 months and nearly an 11% rate of return over the last 5 years, much better than that of the public markets. Adams Street continues to exploit inefficient markets and provide returns in excess of the public markets.

Mr. Callahan then stated that June benchmark information is not yet available, but the market in the second quarter was essentially flat for public equity benchmarks. The Adams Street portfolio was in the 5% range, and that continues even with recent market volatility. In the third quarter, Adams Street expects private equity market portfolios to be down much less than public markets. The market is bifurcated in the sense that buyout portfolios are much more tied to public markets, and those numbers are likely to be down. However, the venture capital side continues to be fairly strong in that venture capital portfolios continue to be priced up or flat, at worst. Many great companies are ready to go public but are not likely to do so in these volatile markets. These portfolios are not going down in value, so third quarter numbers should be quite good relative to poor public numbers.

Mr. Gray indicated the companies that ERS has exposure to that are solid, innovative, and highly-profitable companies ready to go public are companies like Groupon, Twitter, and Zynga.

Mr. Gray then discussed the ERS portfolio, noting that aggregate numbers exclude an old, separate portfolio containing investments chosen by ERS that Adams Street only monitored. On a gross basis, the portfolio is over 18% since inception, and on a net basis over 15%. The BPF Trust Subscription investments in 1998 and 2001 are in liquidation mode, so there will be very few calls and many distributions. In 2009, the pace was somewhat slow because in 2010 private equity stopped. Deals were not being completed and banks were not lending, so many of the groups Adams Street invested in did not come from that market. Performance in 2009 shows that Adams Street was purchasing matured portfolios at very deep discounts from investors that needed liquidity.

Mr. Gray stated that 2009 should be fully committed by the end of 2012, which means that ERS should consider reinvesting because as new managers come to market, after 2012 ERS will not be participating in the new funds. It has been a very active 12 months in terms of yields, which means that Adams Street is drawing down capital from ERS, and companies are either going public or being sold.

Mr. Gray then stated that Adams Street does a great job of picking funds relative to quartile class among the opportunities available in any given year. Mr. Callahan also noted that Adams Street tries to stay consistent as far as investing in subclasses. It is important to maintain very consistent weightings across all covered years.

Mr. Gray continued that because no one can predict the market over the next ten years, diversification in portfolio construction is very important. Many of these investments that Adams Street is making for ERS are eight- to ten-year type of investments that perform well in different cycles.

Mr. Gray then discussed Adams Street's philosophy, which has stayed the same over three decades in terms of fund-to-fund investments; consistency, balance, and diversification. Private equity can be a risky asset class and Adams Street wants to team up with the best managers and diversify in terms of time commitment and subclass weightings. For example, with the recent buyout boom, performance was good and everyone wanted to invest, so the underlying managers raised bigger and bigger funds at the wrong time. By staying consistent in subclasses, underweights and overweights occur at the right time as the market moves up and down, and this is critical in portfolio construction.

The Chairman then commented that in 2009, ERS committed $30 million and only $5 million to $6 million has been drawn so far, which is slower than expected. However, now commitments seem to be up and relatively on pace with expectations.

In response to a question from the Chairman, Mr. Gray stated that commitments are reversed infrequently. Once a contractual commitment is made, the investment is in that fund for the life of the fund. Very few good managers came back to the market in 2010 because it was a very tough environment to raise money. These managers are running out of money now and are coming back in 2011 and 2012. Adams Street tried to commit 25% per year but that did not happen because Adams Street did not want to chase places to invest ERS funds. Instead, Adams Street chose to wait for better opportunities. The pace has picked up dramatically this year, as it will next year, so ERS money will be fully committed to managers by the end of 2012. The positive aspect is that ERS is buying in at much cheaper price multiples and entry points are much more attractive in this environment.

Mr. Callahan then stated that this is where Adams Street's annual fundraising is very helpful. Adams Street forecasts which funds are coming up over the next three to four years, and that determines the amount of money that can be raised this year. In a nutshell, fewer funds than expected raised money in 2010, so those funds will instead be raised in 2011 and 2012 and less will be raised by Adams Street.

Mr. Gray stated that a bit of an offset is the fact that Adams Street has been buying secondaries, which is a fund invested in four or five years ago that now is very mature at 75% or 80% funded. Most of the secondaries are with groups with which Adams Street has previously invested that are well known to them and that Adams Street is buying at discounts. Over the next six months, there are a number of deals pending that have not closed. These funds are very mature and are much closer to distributing capital back to ERS.

Mr. Gray then stated that Adams Street is currently in the market raising the next fund for 2012 as well as raising a secondary fund. There are no liquidity issues and it is a shorter duration asset, which is something ERS may want to consider going forward to supplement the Plan.

In response to a question from the Chairman, Mr. Gray confirmed that Adams Street is investing in secondaries in the primary class as well as a separate secondaries fund.

In response to questions from Mr. Muller, Mr. Gray stated that Adams Street is investing in these funds and in some cases investing a portion of the ERS portfolio directly in the companies themselves. Mr. Callahan then stated that in terms of recommended global offerings, the U.S. funds go into underlying funds, as do developed markets and emerging markets funds. In terms of a valuation process, there are few public market comparisons to work from, so most of it is done by a combination of the most recent round of financing and the underlying managers, depending on the type of fund. The lag time is four to five months because audited financials are also needed.

Mr. Callahan then discussed the current state of the private equity market. Given the volatility in the markets over the last few years, private equity is holding up well in terms of performance and recovery is underway. There has definitely been a flight to quality, and managers are being very careful about which funds they invest in and with which manager. It is a have and have not situation in that the best managers with long track records are raising more funds while others are struggling to raise funds. This is very healthy because less capital is a good thing for investors. Additionally, returns have increased and debt markets have improved, which has helped in terms of some of the distributions in the ERS portfolio. Adams Street believes in venture capital, that there is value in private equity investing in entrepreneurs and exciting companies and in building those companies. However, venture performance over the last decade has been mediocre, primarily due to a tough initial public offering market. That has been changing over the last year. There are great companies being formed, big and profitable, and many have started to go public. Additionally, though market stall is an issue with the IPO market, Adams Street is not concerned because if the companies are good, solid companies, a good exit will be realized one way or the other. A more stable IPO market will be needed going forward, but overall, on the venture side, things are positive.

In response to a question from Mr. Sikorski regarding the special situations referenced in the Adams Street presentation, Mr. Gray stated that in most cases, those are niche type funds, such as funds with an energy focus or bank funds, that do not always act the same as other subclasses.

(b) Marquette Associates Report

Brian Wrubel of Marquette Associates, Inc. distributed the monthly report.

Mr. Wrubel first provided an overview of the fixed income markets. ERS has close to 30% of its assets in bonds. The broad bond market is up almost 7% year-to-date, so there is positive performance across the board. There is still a lot of volatility in the different sectors of the bond market, and managers are making decisions about whether to own treasuries, corporate bonds, or mortgage backed securities. Under government only indices, the BarCap long government is up 27% year-to-date. When the government talks about doing the twist, that means getting the yield of long bonds down so there is trading demand, and government long bonds rallied significantly during this period. Sectors like the BarCap U.S. TIPS are up 10% year-to-date. If ERS had purchased these securities on January 1 and sold them on September 30, ERS would have earned a 10% return. There has been a flight to quality in the bond market, mostly with treasuries and the highest quality corporate bonds. Investors have been selling bank loans or leveraged loans under the corporate bond indices. High-yield bonds are down 6% for the quarter and down more than 1% for the year, so high-yield bonds move a bit more in lockstep with what is going on in the stock market. High-quality bonds have performed very well, and anything perceived as riskier has sold off. Other areas that have sold off significantly include CMBS. Those bonds rallied quite a bit from 2010 to the first half of this year, and now are starting to sell off and the pricing is going up a bit. Marquette is waiting and watching the bond managers to see the timing as they get in and out.

Mr. Wrubel then discussed the U.S. stock market. While numbers are primarily negative, the market has been moving very quickly on the upside as well as the downside. The S&P 500 through September is down 8.7%, but today is actually only down 1%, so there has been a nice rally for the first few weeks of October, which just shows market volatility. Month-end for September may not look good, but so far performance has improved in October. Whether the investment is in value stocks, growth stocks, small-cap, or large-cap, all sectors sold off. Small- and mid-caps sold off a bit more than large-cap, but there were not a lot of places to hide overall in the stock market.

Mr. Wrubel continued with the international markets, which performed significantly worse than the U.S. markets. Year-to-date, the MSCI ACWI ex U.S. IMI is down almost 17%. This measures the entire globe, excluding the United States, but including emerging markets and small-cap stocks. Emerging markets, in particular, was hit hard. It is an extremely volatile asset class, down anywhere from 15% to 20%. Long term, however, it is a high-performing asset class. Over the last ten years, emerging markets have averaged 16%. During that ten-year period, there were two periods where the emerging markets sold off over 75%, so a lot of volatility for a very strong performing asset class. There is a bit of an underweight to emerging markets in the ERS portfolio relative to the broad market, so there is a little less volatility in the international portfolio.

Mr. Wrubel then provided an overview of hedge funds. Currently there is equity hedge in the ERS portfolio, which is a good place to be relative to the S&P 500; less risk with higher return. Hedged equity is really a risk reducer and diversifier to a long-only stock portfolio.

Mr. Wrubel then discussed the commercial real estate market, which has recovered nicely across the U.S. The NFI-ODCE, or the open end fund index, is up almost 9% year-to-date. This strong performance comes from areas like the multi-family or apartment market, which are very strong markets with a lot of pricing power. Real estate has recovered very well and is producing strong, positive performance so far this year. The portfolio also has a small REIT exposure, which Marquette is bringing down, at 6%, so it is a difference between public markets, which is the REIT index, and the private market. The private market is not quite as responsive to what is going on with stocks in general, which is why there is positive performance there.

Mr. Wrubel next discussed market values and asset allocation. Fund assets total almost $1.7 billion. While the portfolio has a good, broad exposure to stocks in general, there is also exposure to fixed income at 30%, real estate at 7%, and infrastructure at 7%. These are asset classes that are producing positive returns and offsetting some of the negative performance in the stock market. This is why Marquette spends a lot of time on asset allocation; this long-term asset allocation will help drive performance. In terms of risk, the portfolio has moved out of high yield in favor of higher quality bonds, and that move over the past few months has definitely favored the Fund. High yield sold off and more traditional bonds like JPMorgan and the Mellon index fund have done very well, acting as a good buffer to the negative stock market. The portfolio was also rebalanced periodically. For example, at the beginning of the year, almost $13 million from equities was placed into American Realty Advisors. Additionally, $30 million from the ING portfolio was placed into infrastructure. Both real estate and infrastructure are more conservative income-producing asset classes that have provided positive performance.

Mr. Wrubel then provided an overview of total Fund performance. For September, the Fund was down 4%, and year-to-date down 3.6%. Given the rally in the market, the Fund should be back into positive numbers in October. Year-to-date composites show fixed income at 6.3%, domestic equities at -12.3%, international stocks at -15%, and real estate at 9.9%. Rebalancing has had a lot of positive impact, but having over 50% of the portfolio in stocks really drove a lot of the negative performance this year.

Mr. Wrubel then discussed the individual Fund managers. In the international portfolio, the dividend yield of the S&P 500 is falling. The dividend yield of the GMO large-cap portfolio is close to 4%, so large, developed European companies are paying out attractive dividend yields. This means that if the stock market did nothing from a price movement, earnings of that GMO portfolio would be close to 4% just from dividend income alone. However, in the bond market, the ten-year treasury is approximately 2%, so earnings would be 2%, or 4% in a high-quality, dividend-paying stock. From a risk premium standpoint, then, stocks are more profitable, and there is a lot of aggressive rebalancing back into those stocks as the market is sold off.

Mr. Wrubel continued by noting that, in the hedged equity portfolio, Marquette has been pleased with the performance of ABS. However, Marquette has been disappointed with the performance of K2 and will be meeting with the president and various lead analysts from K2 to discuss the portfolio. There are no issues with the real estate portfolio. ING assets are being used to fund UBS, and eventually the ING portfolio will be nonexistent. The main reason Marquette wants to pull money from the REITS is because it is a public market and more volatile than the private markets. Morgan Stanley and American Realty are solid real estate managers with large portfolios and there is very good diversification there. Both managers have a slight overweight in areas like multi-sector and multi-family housing, and very small exposure to hotels, which are volatile. The two portfolios are yielding about 5.5%, so there is a strong income component there also. If they do nothing from a price movement this year, they will yield an approximate 5.5% return, which is attractive given the very low interest rate environment overall in the bond market. In Infrastructure, the IFM and JPMorgan portfolios have performed well. Marquette does not yet have the data on the full quarterly performance, but the valuations are expected to be flat to slightly off. Infrastructure is a real estate/fixed income hybrid; it was designed to provide an income component to ERS. IFM is just slightly under 10% and a good diversifier to fixed income. Overall, Marquette is pleased with performance in the infrastructure portfolio.

In response to a question from Mr. Sikorski, Mr. Wrubel stated that Reinhart Partners outperformed for the month. At the last Board meeting, they were placed on alert status and Marquette will re-evaluate them at the end of the year. Reinhart Partners was informed of this and will now provide Marquette more detailed monthly reporting.

The Chairman then stated that Reinhart Partners has been significantly trailing the benchmark for a long time and their performance may also be reviewed by the Investment Committee.

Mr. Wrubel then discussed investment manager fees. ERS pays JPMorgan 20 basis points on the first $100 million and 15 basis points on the balance. JPMorgan manages about $315 million for the portfolio, so their effective fee is approximately 17 basis points, or about $523,000 per year. Marquette expects JPMorgan to outperform on a net fee basis going forward. Overall, the Fund is at 0.54%, or 54 basis points, in fees, which equates to about $9 million. That compares to the industry average of a similar asset allocation at 73 basis points, so the Fund is significantly under the industry average.

Mr. Wrubel then noted the Statement of Investment Policy. The most significant change was to asset allocation where a percentage of fixed income was moved to private equity. Remaining changes involved a general clean-up of the policy. Modifications were made by Marquette and by Reinhart Boerner Van Deuren, and those modifications were reviewed and accepted by Marquette.

The Pension Board unanimously approved the adoption of the revised Statement of Investment Policy from Marquette. Motion by Ms. Bedford, seconded by Mr. Garland.

Mr. Wrubel then discussed the memo from Marquette's real estate group that notes a personnel change at Morgan Stanley Prime Property Fund. The acting co-portfolio manager and head of the research group moved back to California. When a change like this occurs on the portfolio management team, Marquette recommends that the manager be placed on alert. However, this real estate team at Morgan Stanley is really led by a different person, so placing Morgan Stanley on alert is just a formality at this point. Marquette does not think the situation warrants any further action; there are no issues with performance or portfolio construction. Marquette will keep Morgan Stanley on alert for a six- to nine-month period and wait to see whether the position is replaced or re-strategized. Once a decision is made, Morgan Stanley will most likely be taken off alert status.

In response to a question from the Chairman on whether placing a manager on alert status requires action from the Board, Mr. Grady consulted the Statement of Investment Policy and confirmed that in each case, an alert status decision and communication are made only after consultation by Marquette with the Pension Board or the Investment Committee. If the Board disagreed with placing a manager on alert, Marquette could not do so.

Mr. Wrubel concluded by recommending that Board members visit and meet with Adams Street in Chicago. Adams Street is far reaching in that they have global offices and see many different private equity deals, so they have a good understanding of that sector. Their client base is very diverse, with European investors, Asian investors, U.S. pension funds, public funds, and endowment funds. Adams Street could provide an excellent perspective on money flow, what is or is not working, and where technology is headed. Additionally, Marquette wants to continue to round out the private equity allocation and requests Board approval to begin a search for a mid-sized buyout fund-of-funds.

The Chairman then stated that though Adams Street has small and mid-sized funds in their portfolio, they are a bigger fund and raise bigger amounts of money. Finding a fund to complement them is a good idea.

In response to a question from Ms. Bedford, the Chairman stated that the money to fund this investment came out of fixed income.

The Pension Board unanimously approved an authorization to Marquette to begin a search for a mid-sized buyout fund-of-funds. Motion by Ms. Bedford, seconded by Mr. Muller.

The Chairman then stated that an RFP panel will be formed for the search and anyone interested can serve on it. There are high-quality firms in this space that are as impressive as Adams Street Partners.

In response to a question from Ms. Bedford, Mr. Wrubel stated that while there is a mid-market buyout direct funds in the Milwaukee area, there are none at a fund-of-funds level.

The Chairman then recommended Board members attend the Adams Street Partners client conference which is held in June of every year, stating that it is very informative.

In response to Mr. Muller's request for the white paper referenced at the September Board meeting when Mr. Muller raised the question about the absence of mid-cap value in the portfolio, Mr. Wrubel stated that he would forward the white paper. The Chairman then requested that the white paper be sent to the whole Board because of the number of new people since the initial asset allocation discussion.

7. Investment Committee Report

Mr. Garland reported on the October 3, 2011 Investment Committee meeting.

Mr. Garland noted that the committee discussed asset allocation with Marquette. Additionally, Marquette presented a redlined copy of the Statement of Investment Policy for review, as well as the memo documenting the team change at Morgan Stanley.

8. Audit Committee Report

Mr. Garland reported on the October 6, 2011 Audit Committee meeting.

The Audit Committee discussed the changes made to the Retirements Granted Report, which require a Rule change.

Mr. Grady then stated that he will bring an amended Rule 1040 to the next Board meeting.

The Audit Committee next discussed the Security Workers Settlement. Milwaukee County will reimburse the Fund for payments plus interest for monthly pension benefits received by security workers laid off in 2009. Mr. Yerkes then stated that ERS has received a check from the County already, and ERS needs to determine how to handle those funds.

The Audit Committee then discussed the 2012 budget.

The Audit Committee also discussed contributions for ERS members not on the County payroll. Due to the recent State takeover of the MILES and MECA groups, a change will be needed in order for ERS to accept contributions and a process to accept the contributions must be developed.

Mr. Grady then provided background on the issue. The County administered various income maintenance programs, like MILES and MECA, that were County operations up until 2009. In 2009, the State of Wisconsin legislated that the programs become State operations. The State then took over the administration of the programs, but not entirely. The State classified the supervisors of the programs as State employees. The employees—the line workers—remained County employees, so County employees were supervised by State employees. This lasted into 2011 when the State legislature converted the remaining County employees to State employees. However, it was written into the statute that ERS employees generally had a few days after the transfer to decide whether they wanted to remain in ERS or move to the State Retirement System. The transfer for MECA was October 1, 2011 and the transfer for MILES is January 1, 2012. If the employee chooses to stay in ERS, the State will reimburse the normal costs related to those employees. Every year, then, the actuary will need to determine the cost associated with contributions to ERS for the employees in order for the County to bill the State. Additionally, a County employee who chooses the State Retirement System but who is not vested must stay in ERS until he or she becomes vested.

In response to a question from Mr. Queen regarding what was told to members, Ms. Ninneman and Mr. Grady stated that this information was communicated through a question and answer document.

In response to a question from Mr. Garland, Mr. Grady stated that it was the State legislature that was responsible for creating the different rules for each group of employees.

In response to a question from Mr. Garland, Mr. Grady stated that the County will bill the State for the full, normal cost of the County benefit obligation.

In response to a question from Mr. Yerkes, Mr. Grady stated that the money withheld from transferred employees should be sent by the State to the County, as well.

In response to a question from Mr. Garland, Mr. Grady stated that, with MECA, 11 supervisors moved over in 2009 and 70 childcare workers were moved on October 1, 2011. All are being offered positions in the childcare area. With MILES, there are 230 employees moving over on January 1, 2012. These employees are being interviewed and are not guaranteed a position with the State.

The Audit Committee then discussed the OBRA IRA Custodian RFI. Mr. Yerkes received a proposal with much better fees. Mr. Yerkes stated that the proposal contained a $10 start-up fee and a $25 annual fee.

The Audit Committee concluded with an agreement to move the permanent meeting time from 1:00 to 1:30, at Mr. Garland's request.

9. Administrative Matters

The Pension Board discussed additions and deletions to the Pension Board, Audit Committee, and Investment Committee agendas. The Chairman asked that anyone with future topic suggestions should voice them. Those topics will be discussed at the next agenda planning meeting.

No action was taken on educational opportunities for the Pension Board members because all proposed opportunities had been previously approved.

Ms. Bedford moved that the Pension Board adjourn into closed session under the provisions of Wisconsin Statutes section 19.85(1)(g), with regard to items 10, 11, and 12 for the purpose of the Board receiving oral or written advice from legal counsel concerning strategy to be adopted with respect to pending or possible litigation. At the conclusion of the closed session, the Board may reconvene in open session to take whatever actions it may deem necessary concerning these matters.

The Pension Board voted by roll call vote 7-0 to enter into closed session to discuss agenda items 10, 11, and 12. Motion by Ms. Bedford, seconded by Mr. Garland.

10. Lesley Schwartz-Nason — Review of Retirement Benefit Under Rules 1035 and 1040

In 2004, Ms. Schwartz-Nason applied for an Option 7 form of pension benefit consisting of a 5% survivor benefit, stating that she planned to retire during the 2004 calendar year. The Pension Board granted her 2004 Option 7 request based on the Ordinances and Rules applicable in 2004. However, Ms. Schwartz-Nason did not retire in 2004, but continued to work. She retired in 2011, requesting that her 2004 Option 7 request be applied to her compensation and service through 2011.

In open session, the Pension Board voted 6-1, with Mr. Stuller dissenting, to approve the modification of Lesley Schwartz-Nason's pension benefit to comply with current ERS Ordinances and Rules, and to offer an opportunity for Ms. Schwartz-Nason to accept the modification, appeal the decision, or apply for a 5% survivor benefit under the current ERS Rules. Motion by Ms. Bedford, seconded by Mr. Queen.

11. Pending Litigation

(a) *Mark Ryan, et al. v. Pension Board*

The Pension Board took no action on this item.

(b) *ERS v. Lynne Marks*

The Pension Board took no action on this item.

(c) *Christine Mielcarek v. ERS*

The Pension Board took no action on this item.

(d) *Lucky Crowley v. ERS*

The Pension Board took no action on this item.

(e) *Renee Booker v. ERS*

The Pension Board took no action on this item.

12. Report on Compliance Review

The Pension Board took no action on this item.

13. Adjournment

The meeting adjourned at 11:15 p.m.

Submitted by Steven D. Huff,
Secretary of the Pension Board